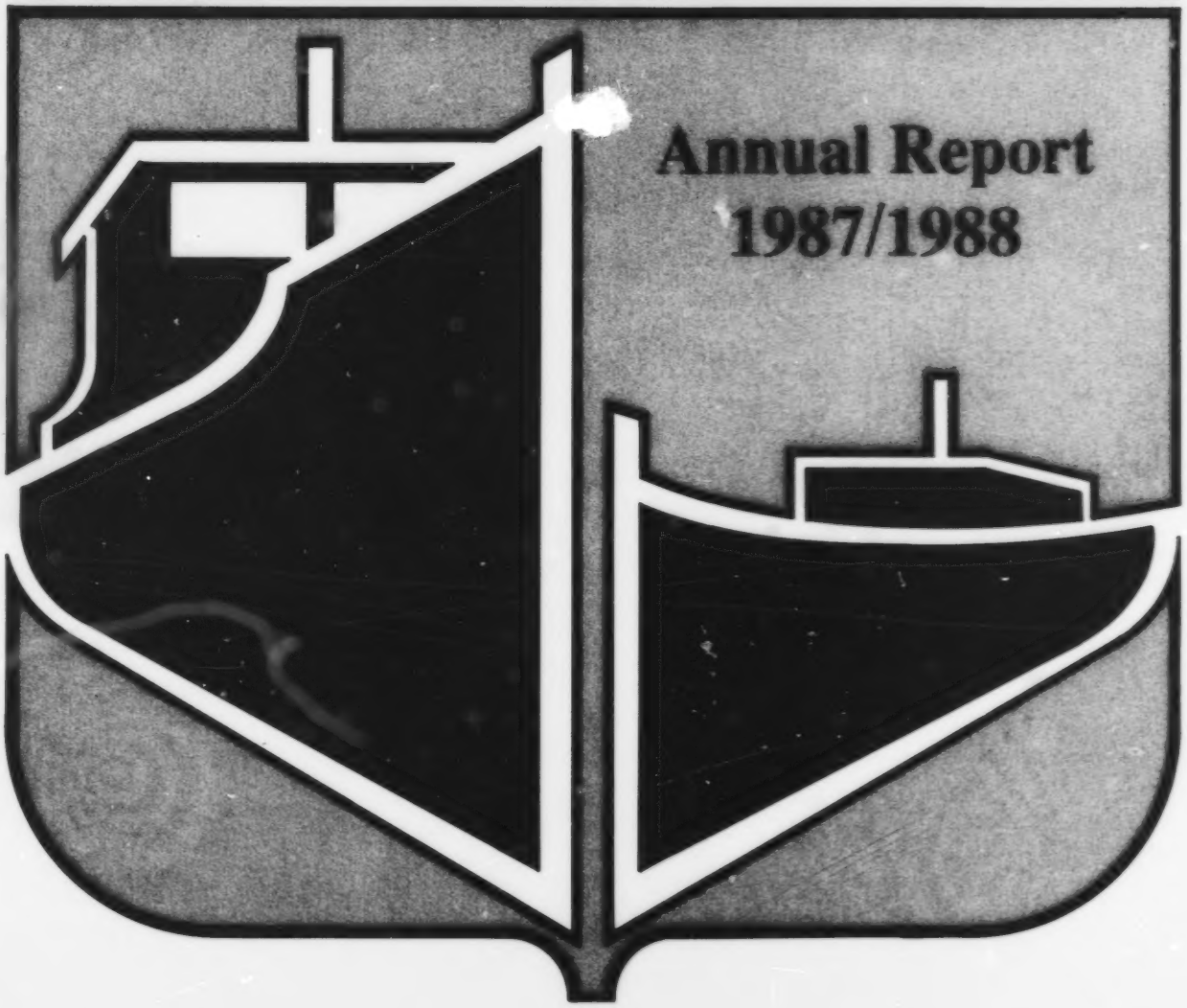
FISHERIES LOAN BOARD



Annual Report 1987/1988

89-05715/

The Cover of the Annual Report
is the Fisheries Loan Board Logo

Fisheries Loan Board of Newfoundland
P. O. Box 4750
Suite 502, 5th Floor
Atlantic Place
St. John's, Nfld.
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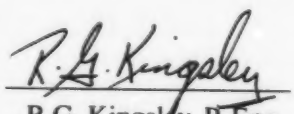
Honourable Tom Rideout, M.H.A.
Minister of Fisheries
Government of Newfoundland and Labrador
St. John's, Newfoundland

Sir:

On behalf of the Fisheries Loan Board of Newfoundland and Labrador, I am pleased to submit the Annual Report, together with the financial statements, of the Board, for the fiscal year ended March 31st., 1988.

Respectfully submitted,



R.G. Kingsley, P. Eng.
Chairman

The Fisheries Loan Board of Newfoundland and Labrador was established in 1949 to provide financing for the development of the fishing industry. Over the years the Board's mandate has altered somewhat in that it now provides financing exclusively for fishermen to acquire fishing vessels and related equipment to pursue the inshore and midshore fisheries.

All loan applications for financial assistance are processed by officials of the Loan Board and are submitted to the Executive Board for approval. The Executive Board, which meets every second week, presently consists of nine members representing the fishing industry, the Provincial and Federal Governments, and the private sector. Members of the Board are appointed by the Lieutenant-Governor in Council.

This report briefly describes some of the highlights for the fiscal year 1987-88 to convey to the Honourable Tom Rideout, M.H.A., Minister of Fisheries and to the general public the statistical, financial and general information related to the Board's operations.

It is a pleasure to submit another Annual Report for the Fisheries Loan Board and to be able to report that the Board has had one of the most successful years in its history. The fiscal year 1987-88 was a very significant year due to major increases in the demand for all Board programs, especially in vessel construction. The various sections of the Annual Report will note a dramatic increase in direct loans, guaranteed loans, bounties and related activity, as compared to the previous year.

The 1987-88 year saw the continuation of the increased activity which commenced in the previous fiscal year and showed a turnaround in vessel construction. This manifested itself into a boat building boom which saw more large boats built in the last fiscal year than in the total of the previous five years. As indicated in the report last year, the Board attributes this to the positive financial outlook as a result of the good markets in 1987 and also to the increased confidence by many fishermen as to the future of the fishery.

Notwithstanding the above, the inshore fishery has experienced quite a number of troubled years especially since 1981 and it was during 1987-88 that officials of the Board and Government fully addressed the financial problems of many fishermen who deal with the Board and this resulted in the institution of the Debt Restructuring Program. It was with pleasure that the Board was able to announce the Fisheries Loan Board Debt Restructuring Program by the end of the 1987-88 fiscal year and judging by the response of fishermen to date there is a general positive reaction to this program.

On the revenue side, the Board had a very successful year with a substantial increase from previous years. Total collections from direct loans were $9.7 million compared to $6.4 million for the previous year. This was attributed to the favourable market conditions and the success of the Board's Assignment of Catch Program. Through this program many fishermen are now paying particular attention to their Board debt obligations and have agreed to authorize the processing plants to remit a certain portion of the fisherman's vessel gross sales to the Board. This procedure has greatly improved the collection and loan processing procedures for the Board.

The significant highlights of the 1987-88 year include the following: financing for thirty-nine (39) large vessels compared to nine (9) for the previous fiscal year; the Board met on 23 occasions and dealt with a major increase in direct loan approvals; enhancements to the loan processing and collection systems for direct loans; a new policy with regard to the purchase of engines and equipment from outside the Province, and the addition of nine (9) new boat builders to the Board's approved builders list.

From an organization and staff perspective, during the year the Board had seven (7) staff resignations, the majority taking other positions within Government, one (1) retirement and five (5) positions were filled on a permanent basis. By the end of the fiscal year, the Board had forty-six (46) permanent positions and four (4) temporary positions for a total staff complement of fifty (50) persons.

Overall, 1987-88 has been a landmark year for Board operations and I wish to express my appreciation to the management and staff of the Board and to officials of the Department of Fisheries and the Fishing Industry Advisory Board for helping to make it such a successful year.

Sitting from left:	Kevin Carroll, Fishermen's Union Reginald Kingsley, Chairman, Fisheries Loan Board Gordon Kane, Comptroller, Fisheries Loan Board
Standing from left:	Dr. Chris Campbell, Marine Institute Judy Symonds, Member At Large Lindsay Small, Fisherman William Molloy, Fisherman
Missing from photo:	Eric Wells, Deputy Chairman, Fisheries Loan Board Herbert Goudie, Department of Fisheries David Alyward, Department of Fisheries and Oceans

The Fisheries Loan Board operates under the authority of The Fisheries Loan Act, The Fishing Ships (Bounties) Act, The Fishing and Coasting Vessels Rebuilding and Repairs (Bounties) Act, The Bank Loan Guarantee Program and the Small Boat Bounty Program. Authority is provided for the Board to provide low interest loans and guarantees and capital grants (Bounties) to fishermen who meet the eligibility criteria set forth in the Acts, Regulations and Guidelines.

In addition to providing financial assistance, the Board has been responsive to the needs of fishermen in other ways, including the provision of advice on the viability of proposed operations and, generally, in helping fishermen to manage their current financial affairs. Furthermore, technical advice and inspection services are provided to ensure that fishing vessels are constructed and equipped to adequate standards.

The following pages summarize the Assistance Programs administered by the Board.

LENDING PROGRAMS

Direct Loan Program

Direct loans less than $50,000 are provided by the Board at subsidized interest rates. The interest rate is set at three percentage points below the Provincial Government Banker's prime interest rate and is assessed twice annually on April 1 and October 1. These loans provide for the purchase of small fishing vessels and related equipment.

Bank Loan Guarantee Program

Loans between $50,000 and $1,000,000 are provided by Chartered Banks under this program and Government guarantees a certain percentage of the loans. An interest subsidy is also provided so that fishermen will pay the same interest rates on bank loans as the interest rates charged on loans through the Direct Loan Program.

The tables on the following pages provide statistical information concerning the Direct Loan and Bank Loan Guarantee Program activity for the 1987-1988 fiscal year with comparative figures for the 1986-1987 fiscal year.

BOUNTY PROGRAMS

The Bounty Program's purpose is to encourage the acquisition, replacement or rebuilding and repair of small and large vessels by providing a subsidy to reduce the capital costs of boats to fishermen. The programs consist of:

(A) A Small Boat Bounty Program for new vessels less than 10 tons (usually under 35 feet). The subsidy is provided on a per foot basis.

(B) A Large Boat Bounty Program for new vessels greater than 10 tons. The subsidy is provided on an underdeck tonnage basis.

(C) A Rebuilding and Repair Bounty Program to rebuild and repair vessels in excess of 10 tons, more than 8 years old, and registered in Newfoundland for at least five years. The subsidy is provided on a percentage basis of the approved cost.

The graphics on the following pages provide statistical information concerning the Bounty Programs for the 1987/88 fiscal year with comparative figures for the 1986/87 fiscal year.

Direct Loans and Bank Loans Approved for the 1987/88 Fiscal Year

(with comparative figures for the 1986/87 fiscal year)

	Number			Loan Amount ($000)		
Purpose of Loan	86/87	87/88	+(-)%	86/87	87/88	+(-)%
Engines & Equipment	376	481	28	$1,838	$2,509	37
New Boats Under 35'	271	515	90	2,270	4,964	119
New Boats Over 35'	3	4	33	83	129	55
Used Boats Under 35'	78	101	29	652	1,268	95
Used Boats Over 35'	50	50	0	1,446	1,538	6
Total Direct Loans	778	1151	48%	$6,289	$10,408	66%

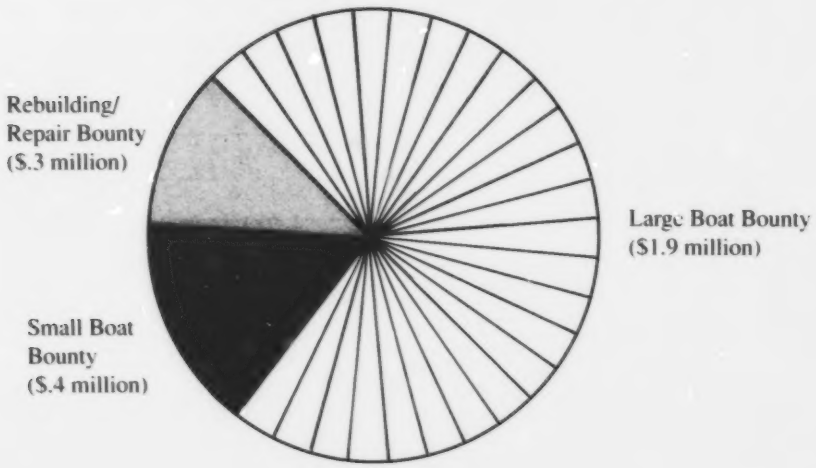
Bank Loans Approved

	Number			Loan Amount ($000)		
Purpose of Loan	86/87	87/88	+(-)%	86/87	87/88	+(-)%
Engines & Equipment	0	5	—	0	433	—
New Boats Under 35'	1	3	200	13	185	1,323
New Boats Over 35'	2	35	1,650	1,061	15,491	1,359
Used Boats Under 35'	0	2	—	0	103	—
Used Boats Over 35'	6	18	200	955	2,593	164
Total Bank Loans	9	63	600%	$2,029	$18,805	827%

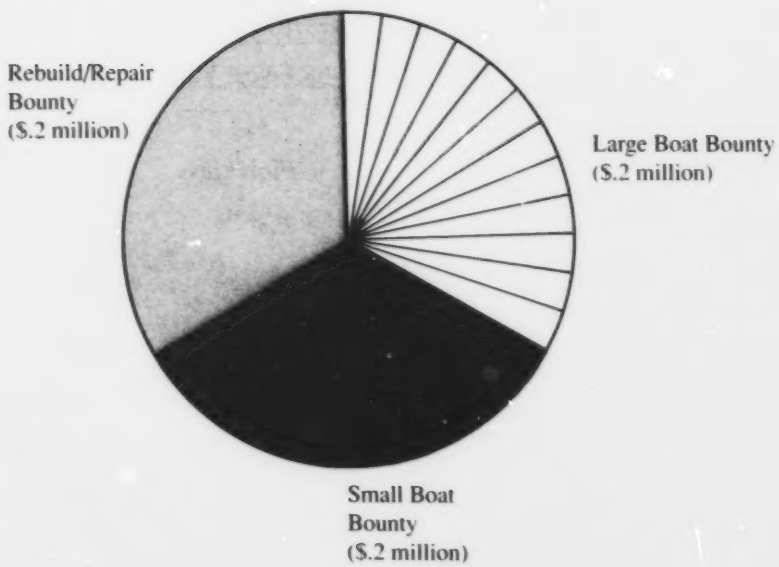
New Boats

	Direct Loans				Bank Loans			
	Small Boats		Large Boats		Small Boats		Large Boats	
	#	Loan Amount ($000)	#	Loan Amount ($000)	#	Loan Amount ($000)	#	Loan Amount ($000)
1987/88	515	$4,964	4	$129	3	$185	35	$15,490
1986/87	271	2,270	3	83	—	—	2	1,061
1985/86	183	1,384	4	199	—	—	2	505
1984/85	186	1,454	—	—	—	—	1	391
1983/84	201	1,931	3	150	2	189	7	2,352

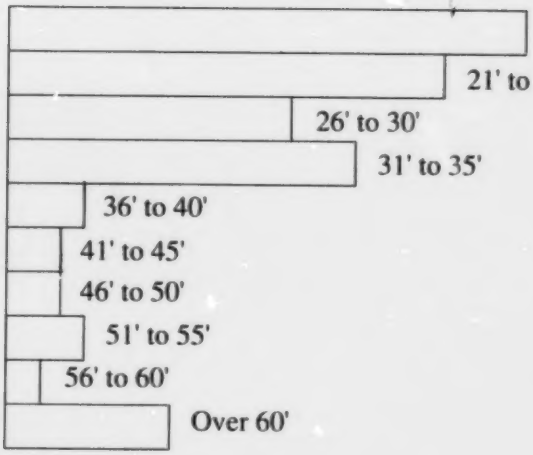
Bounty Programs (By Dollar Value)
for the 1987-88 Fiscal Year



for the 1986-87 Fiscal Year

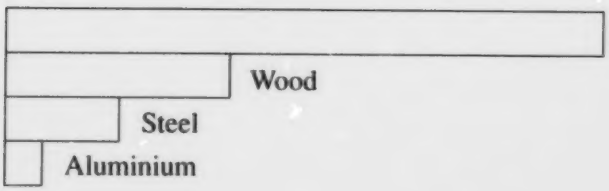


New Vessels By Size
For The 1987-1988 Fiscal Year



	Total
Under 21'	264
21' to 25'	165
26' to 30'	42
31' to 35'	47
36' to 40'	6
41' to 45'	3
46' to 50'	3
51' to 55'	6
56' to 60'	2
Over 60'	19
	557

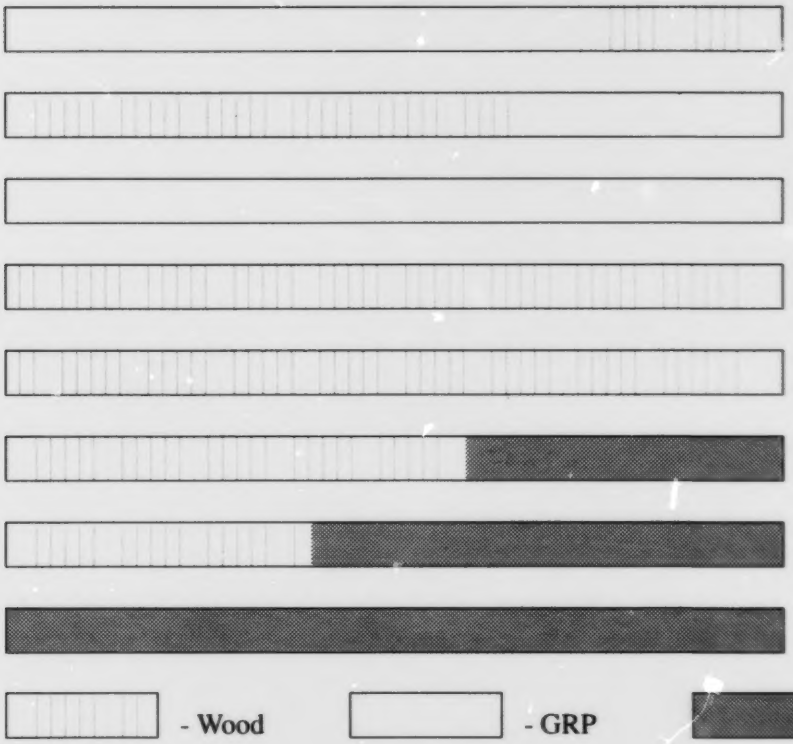
New Vessels By Type
For The 1987-88 Fiscal Year

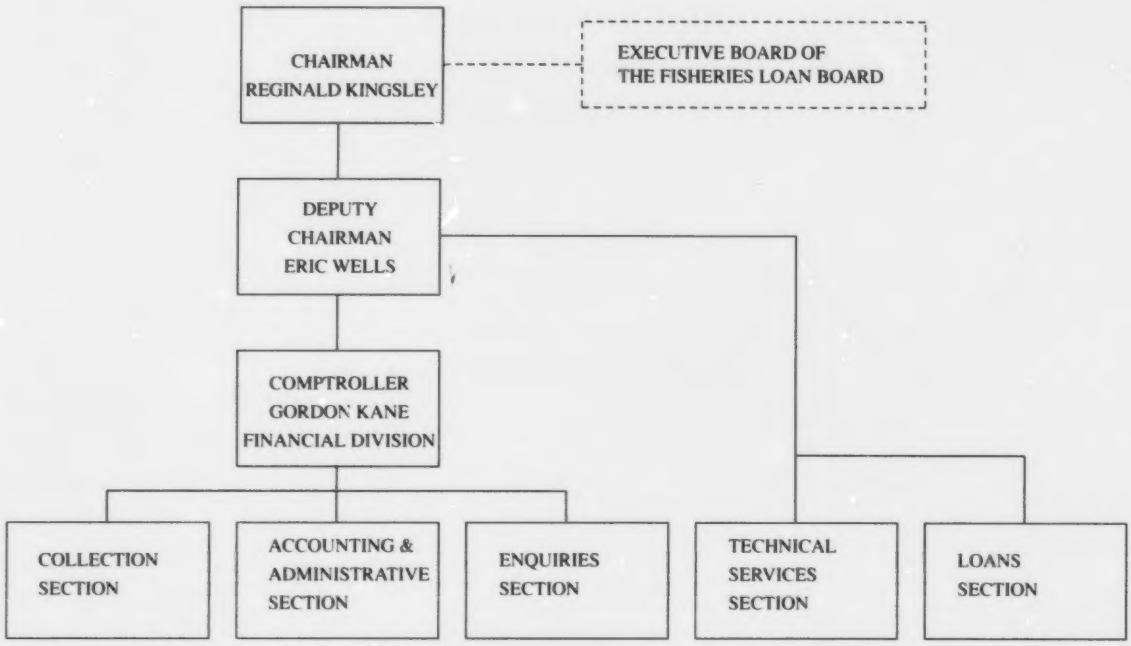


Fibreglass	462 *
Wood	77
Steel	13
Aluminium	5
	557

* 99% are under 35'

New Vessel Construction By Size and Type For The 1987-1988 Fiscal Year


Under 35'—518 vessels
36' to 40' — 6 vessels
41' to 45' — 3 vessels
46' to 50' — 3 vessels
51' to 55' — 6 vessels
56' to 60' — 2 vessels
61' to 65' — 17 vessels
Over 65' — 2 vessels
- Wood
- GRP
- Steel



Senior Management

Reginald Kingsley - Chairman
Eric Wells - Deputy Chairman
Gordon Kane - Comptroller and Legal Secretary

Senior Staff

Financial Division

Keith Barry - Assistant Comptroller
Vic Powers - Accountant
Herb Ebsary - Co-Ordinator of Information Services
David Fleming - Collections Supervisor

Technical Section

Alex McGruer - Chief Vessel Technical Consultant
William Janes - Senior Marine Inspector
Len Edwards - Technical Services Co-Ordinator

Loans Section

David Patrick - Bank Loan Program Director
Anne Donnelly - Financial Counsellor
David Jerrett - Loans Coordinator
Andy Kean - Senior Loans Officer

Collections Section

The Board's Collection Section also had a very busy year during 1987-88. During that period three major initiatives were undertaken. One concerned the implementation of regional collection procedures whereby the collection officers will now be making prompt follow-up contact with all borrowers to ensure the maintenance of active accounts.

The second initiative was the Debt Restructuring Program. The Program was put in place toward the end of the fiscal year, however, the Collections Section had considerable input into the planning for this and the implementation process. The Debt Restructuring Program was a major initiative for the Board during the fiscal year and basically involves the debt restructuring of all direct loans under an "across the board basis" whereby upon request a fisherman could be receiving a credit towards his principal balance based upon interest charged during the past 5 1/2 years plus a 10% credit for interest paid. A similar program was also made available for fishermen who deal with the Banks through the Bank Loan Guarantee Program. This will also be on an individual basis; however, assistance will be determined by the financial circumstances of the enterprise.

Also during the year, the Collections Section instituted a public auction system for repossessed vessels and this disposal method was used for a portion of the 69 repossessions which occurred during the year. It should be noted, however, that almost all repossessions were at the request of borrowers who had unprofitable enterprises.

Accounting and Administrative Section

The Administrative Section is primarily responsible for the accounting system and procedures for the approximately 5000 direct loans handled by the Board in addition to all other administrative functions. The computerized loan accounting system is very vital to fishermen and Board officials for controlling and accounting for loans.

During the 1987-88 year the Board continued to enhance its loan accounting system and these enhancements will continue into the next year as a result of the continuing discussions with fishermen and other officials concerning the system.

Enquiries Section

The Board's Enquiries Section operates as the "front line" for fishermen and all industry people to make their initial contact with the Board. In 1987-88 the Board's Enquiries Section handled approximately 2200 enquiries concerning all aspects of the Board's operations. The majority of applications sent to fishermen and field offices originated from enquiries officers. Also, during the year, the enquiries officials represented the Board at trade shows. They prepared information for or took part in Province wide meetings with representatives from the fishermens' committees, and performed an invaluable service with the Board's emergency loan program.

Technical Services Section

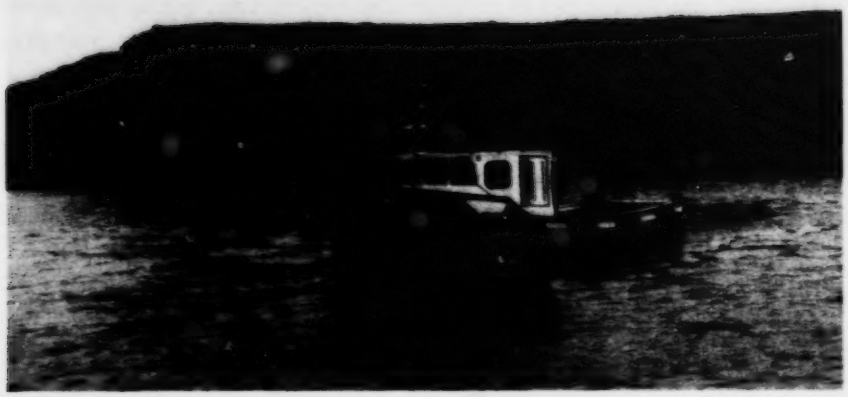
The Board's Technical Services Section is responsible for the administration of the Bounty Programs, technical assessments and inspection of vessels, engines, and equipment for bounty and loan purposes. As an indication of the major increase in the volume of work during the 1987-88 fiscal year, there were approximately 1800 reports prepared by Board inspectors with respect to appraisals, inspections and assessments. The Statistics Section of this Report will indicate the major increase in program demand which attributed to this increased activity.

The Technical Services Section has also been extensively involved with the expansion of the approved shipyards and during the year nine (9) new boat builders were assessed and placed on the Board's approved builders list. At year end there were six (6) others in the assessment process. This is a clear indication of the renewed interest in the boat building industry.

Loans Section

The Loans Section is responsible for processing loan applications under both the direct loan and guarantee loan programs and providing financial counselling to all Program clients. The Statistics Section of this Report will indicate the degree of activity carried out under these programs during the year. In order to effectively handle the demand, Board officials initiated a review of the direct loan processing system and put some new procedures in place to streamline the process. This will continue throughout the next fiscal year.

During the year, the Board adopted a new policy with regard to certain types of loans whereby loan financing would be made available for the purchase of new engines and equipment from outside the Province where such items are installed on used vessels. Another policy involved loan financing whereby a fisherman could purchase a new vessel from outside the Province without Board financing; however, the Board would finance the engine and equipment. Both of these initiatives were utilized by fishermen to a limited extent; however, they laid the ground work for still another new policy. This policy, which is planned for implementation during the middle of the next fiscal year, involves Board financing for new fibreglass vessels built outside the Province where such vessels are not available from local boat yards.



DEPARTMENT OF THE AUDITOR GENERAL
ST. JOHN'S, NEWFOUNDLAND

AUDITOR'S REPORT

The Chairman and Members
The Fisheries Loan Board of
Newfoundland
St. John's, Newfoundland

In compliance with the requirements of Section 16 of the Fisheries Loan Act, 1970, I have examined the balance sheet of the Fisheries Loan Board of Newfoundland, Fisheries Loan Fund, as at 31 March 1988 and the statements of revenue and expenditure, equity and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Fisheries Loan Board of Newfoundland, Fisheries Loan Fund, as at 31 March 1988 and the results of its operations and the changes in its financial position for the year then ended in accordance with the accounting principles disclosed in Note 2 of the financial statements applied on a basis consistent with that of the preceding year.

J. F. McGrath, C.A.
Auditor General

St. John's
10 August 1988

FISHERIES LOAN BOARD OF NEWFOUNDLAND
FISHERIES LOAN FUND
BALANCE SHEET
31 MARCH 1988

	1988	1987
ASSETS		
Cash	$ 830,448	$ 1,206,978
Lease revenue receivable	39,753	39,753
Interest subsidy receivable (Note 7)	141,034	61
Advances receivable (Note 3)	51,801	102,879
Other receivable (Note 8)	50,362	46,242
Loans receivable (Note 4)	52,013,641	54,181,820
	52,296,591	54,370,755
Less: Allowance for doubtful accounts	23,877,403	22,882,052
	28,419,188	31,488,703
Total assets	$29,249,636	$32,695,681
LIABILITIES		
Borrowers' deposits on new loans	$ 375,683	$ 158,834
Tender deposits	1,106	10,671
Total liabilities	376,789	169,505
EQUITY		
Province of Newfoundland		
Contributed capital	45,785,942	47,923,929
Deficit	(16,913,095)	(15,397,753)
Total equity	28,872,847	32,526,176
Total liabilities and equity	$29,249,636	$32,695,681

See accompanying notes
Signed on behalf of the Board

Deputy Chairman

Member

FISHERIES LOAN BOARD OF NEWFOUNDLAND
FISHERIES LOAN FUND
STATEMENT OF EQUITY
FOR THE YEAR ENDED 31 MARCH 1988

	1988	1987
Contributed capital, beginnng of year - as restated (Note 10)	$47,923,929	$48,855,988
Add: Contributions made by Province during year	5,274,279	3,566,761
	53,198,208	52,422,749
Less: Capital contributions returned to Province	7,412,266	4,498,820
Contributed capital, end of year	45,785,942	47,923,929
Deficit, beginning of year - as restated (Note 10)	15,397,753	15,932,584
Add: Payments to the Province for interest collected on loans issued by the Board	2,616,534	1,873,881
Less: Excess of revenue over expenditure	1,101,192	2,408,712
Deficit, end of year	16,913,095	15,397,753
Equity, end of year	$28,872,847	$32,526,176

See accompanying notes

FISHERIES LOAN BOARD OF NEWFOUNDLAND
FISHERIES LOAN FUND
STATEMENT OF REVENUE AND EXPENDITURE
FOR THE YEAR ENDED 31 MARCH 1988

	1988	1987
REVENUE		
Interest on loans	$2,727,007	$2,708,544
EXPENDITURE		
Provision for doubtful accounts	1,625,641	299,593
Operating expenses (Note 5)	174	239
	1,625,815	299,832
Excess of revenue over expenditure	$1,101,192	$2,408,712

See accompanying notes

FISHERIES LOAN BOARD OF NEWFOUNDLAND
FISHERIES LOAN FUND
STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 1988

	1988	1987
Cash resources were provided by:		
Principal installments on loans receivable	$ 8,084,915	$ 4,470,840
Deposits on vessel construction	12,296	5,184
Interest on loans receivable	2,207,124	1,907,772
Provincial bounty on loans advanced	288,884	218,212
Federal subsidy on loans advanced	—	11,983
Required payments on loans advanced	1,076,041	581,373
Tender deposits	183,650	156,559
Province of Newfoundland		
- Advances to fund	5,274,279	3,566,893
- Interest subsidy (Note 7)	334,150	713,494
Marine insurance payments (Net)	259,979	98,098
Lease advances	21,657	7,800
	17,742,975	11,738,208
Cash resources were used for:		
Loan advances		
Purchase of boats and equipment	7,352,086	4,688,448
Construction of vessels	2,325	25,403
Repossession expenses	89,088	80,085
Payments of interest subsidy (Note 7)	475,114	652,674
Tender deposit refunds	146,391	126,032
Leased vessels expenses	25,701	—
Payments to Province of Newfoundland	10,028,800	6,372,701
	18,119,505	11,945,343
Decrease in cash during year	376,530	207,135
Cash, 1 April, 1987	1,206,978	1,414,113
Cash, 31 March, 1988	$ 830,448	$ 1,206,978

See accompanying notes

FISHERIES LOAN BOARD OF NEWFOUNDLAND
FISHERIES LOAN FUND
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1988

1. Authority

The Fisheries Loan Board of Newfoundland operates under authority of the Fisheries Loan Act, Chapter 134, Revised Statutes of Newfoundland, 1970. These statements are a representation of the activities of the Fisheries Loan Fund as established by Section 6 of that Act. The Fisheries Loan Regulations, 1980, under the Fisheries Loan Act states in Section 14 that the minimum amount that the Board may advance by way of a loan to fishermen is $1,000 and the maximum amount shall be $50,000.

2. Significant accounting policies

(a) Basis of accounting

The Board follows the accrual basis of accounting.

(b) Allowance for doubtful accounts

The allowance for doubtful accounts relates to loans receivable and represents an estimate of future probable losses on the accounts outstanding at year end. With respect to this estimate, the Board recognizes that future economic and fishing industry conditions are not predictable and, therefore, their impact on the collectibility of loans is uncertain.

Actual losses on loans are charged to the allowance while recoveries of loan losses are credited to the allowance. The adjustment of the allowance to the appropriate level is charged to operations as a provision for doubtful accounts.

(c) Captial contributions

The Fisheries Loan Board receives capital contributions from the Province under Section 11 of The Fisheries Loan Act to be deposited into the Fisheries Loan Fund for the purpose of making loans or advances to fishermen and to other persons, associations, societies or companies engaged either directly or indirectly in the catching, handling, processing, or distributing of fish or fish products.

(d) Payments to the Province

During 1985 an amendment was made to the Fisheries Loan Act regarding the collections on loans receivable. The amendment required the Board to pay into the Consolidated Revenue Fund out of the Fisheries Loan Fund such monies as directed by the Lieutenant-Governor-In-Council. As directed by the Lieuutenant Governor-In-Council the interest portion of all loan payments are remitted to the Consolidated Revenue Fund with the principal portion remitted to the Department of Fisheries, all on a monthly basis.

3. Advances receivable

This account represents payments made for vessel construction. When the vessels are completed and the required documentation is in place, these expenditures are transferred to loans receivable. During construction, all loan advances are secured by a Builder's Mortgage.

4. Loans receivable

	1988	1987
Principal not yet due	$21,403,809	$22,407,871
Principal due and unpaid	23,973,209	24,693,235
Interest due and unpaid	5,338,186	5,754,614
Interest accrued	1,298,437	1,326,100
	$52,013,641	$54,181,820

Included in the principal and interest outstanding at year end is the amount of $7,693,600 (1987 - $5,861,603) which represents principal and interest due from individuals whose boats have been repossessed and sold. Of this amount $531,311 (1987 - $519,786) represents the balance of contracts entered into prior to 3 September 1974, of which a portion is not legally collectible. Principal and interest due from individuals whose boats have been repossessed and unsold amounted to $506,408 (1987 - $550,589).

FISHERIES LOAN BOARD OF NEWFOUNDLAND
FISHERIES LOAN FUND
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1988

5. Operating expenses

The Department of Fisheries, Province of Newfoundland, was responsible for current account operating expenses totalling $2,186,004 (1987 - $2,155,841) of the Fisheries Loan Board of Newfoundland. These expenses are not reflected in these financial statements.

6. Commitments

Loans authorized but not disbursed as at 31 March 1988 amounted to $4,696,836 (1987 - $2,922,819). It is expected that the majority of these loans will be disbursed within the five month period ending 31 August 1988 from advances to be made to the fund by the Province.

7. Interest Subsidy

The Board pays an interest subsidy for the interest charges on fishermen's bank loans to the extent of the difference between the bank's interest rate and the Board's interest rate when the loan was approved. These payments are subsequently recovered from the Province and charged to the Department of Fisheries. For the year ended 31 March 1988 the Board paid $475,114 (1987 - $652,674) in interest subsidy and had recovered $334,150 (1987 - $713,494) from the Province.

8. Other receivable

During 1986-87 the Board placed two vessels into their pilot leasing program as they were directed in M.C. 1132-'85 which approved the establishment of a 3 year leasing program for up to a maximum of ten vessels. These leased vessels were set up in the name of the Minister of Fisheries and assigned a fair market value determined by public tender. This fair market value paid by the Board on these vessesls was set up in the accounts of the Board with an offsetting credit to the loan accounts of the fishermen from whom the vessels had been repossessed. The account balances of these vessels are reduced by the lease payments received from the lessees of these vessels.

During 1987-1988 the lessee of one of the two above mentioned vessels exercised the option to purchase, thereby reducing the number of leased vessels at 31 March 1988 to one.

FISHERIES LOAN BOARD OF NEWFOUNDLAND
FISHERIES LOAN FUND
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1988

9. Income taxes

The Fisheries Loan Board is not subject to Federal or Provincial income taxes.

10. Restatement of equity

The opening balances of contributed capital and deficit for the year ended 31 March 1987 have been decreased by $373,940 to adjust for an error in the 1985-86 fiscal year.